

Commonwealth of Kentucky

Presentation to Benefits SubCommittee
of the Blue Ribbon Panel

By

Cabinet for Health and Family Services
Personnel Cabinet

June 15, 2005



Agenda/Contents

- Introduction
- Key Statistics and Baseline Assessment
- Detailed Utilization Analysis
- Summary of Observations and Strategies

Note: This information is not to be used to project future costs, but for data analysis only.

Introduction

- PwC analyzed the Commonwealth's prescription drug claims experience available through Medstat to establish baseline utilization.
- Data was analyzed in aggregate (i.e. all plans).
- Key Performance Trend and Claim Summary Reports corresponding to the following years were analyzed.
 - January 1, 2003 – December 31, 2003
 - January 1, 2004 – December 31, 2004
- Plan design features, including three tier copay structure, generic policy and mail/retail copay balance were evaluated.
- Detailed therapeutic class, drug class and top drug reports were analyzed to further identify cost drivers.

Note: Experience for the first quarter of 2005 was not included in this analysis. First quarter pharmacy utilization is historically lower than the remainder of year, analysis would not provide a representative benchmark.

Key Statistics



Key Statistics

Description	Commonwealth of Kentucky			Industry Benchmarks		
	2004	2003	% Change	2004	2003	% Change
Average Member Age	36.9	35.8	3.1%			
Total Ingredient Cost	\$217,943,887	\$190,157,293	14.6%			
Total Plan Cost	\$161,862,986	\$142,032,172	14.0%			
Total Eligible Members	227,916	226,394	0.7%			
Total Number of Claims	4,069,907	3,930,564	3.5%			
Total Number of Claims Mail	44,767	46,621	-4.0%			
Total Number of Claims Retail	4,025,140	3,883,943	3.6%			
Total Number of Claims Brand	2,172,017	2,192,928	-1.0%			
Total Number of Claims Generic	1,897,890	1,737,636	9.2%			
Generic Distribution	46.6%	44.2%	5.5%	46.3%*-52.7%**	43.8%*-48%**	
Mail Order Utilization	1.1%	1.2%	-7.3%	39.6%*	34.3%*	
Member Cost Share	27.5%	27.9%	-1.5%			
Ingredient Cost per Member	\$956.25	\$839.94	13.8%			
Ingredient Cost PMPM	\$79.69	\$70.00	13.8%			
Plan Cost per Member	\$710.19	\$627.37	13.2%			
Plan Cost PMPM	\$59.18	\$52.28	13.2%	8.5%*-9.3%**	9.3%***-10.2%*	
Plan Cost per Claim	\$39.77	\$36.14	10.1%	\$58.37	\$54.70	6.7%
Nbr Claims PMPY	17.86	17.36	2.9%	14.46	13.60	6.4%
Nbr Claims PMPM	1.49	1.45	2.9%	1.21	1.13	6.4%

Note: Benchmarks in blue are Medstat Government – State benchmarks

*Medco Drug Trend Report, May 2005, pages 6, 29, 30.

**Express Scripts 2004 Drug Trend Report, June 2005, pages 6, 7, 23.

***Caremark 2004 Trend Report, no date provided, page 2.

Key Statistic and Claim Summary Observations

Key Statistics

- Trend experience 2003-2004 is 13.2% (Plan Cost PMPM).
- Number of claims PMPY in 2004 was 17.86, exceeding the Medstat State Government Benchmark of 14.46 PMPY.
- Total membership count remained relatively consistent year over year, average age of participants increasing as expected by approximately one year.
- Use of generic medication is increasing to a 2004 Generic Fill Rate of 46.6%.

Claim Summary

- Use of brands where a generic is available (Multi-Source Brand), is very high and actually grew 2003 to 2004 to over 7%. We would expect to see this category below 3%.
- Retail dispensing fees in 2003 were on the high side of industry norms at \$1.97. Fees decreased to a more competitive \$1.77 in 2004.

2003-2004 Plan Design

Prescription Baseline Diagnosis 2003-2004

Covered Prescription Services	HMO Plans	POS Plans & PPO Plans				EPO Plan
	Option A & B	Option A		Option B		
Prescription drugs – Retail (30 day supply)		In-Network	Out-of-Network	In-Network	Out-of-Network	
Members	74,655	PPO = 136,642 POS = 11,291				5,327
Generic	\$10*	\$10*	40% co-ins***	\$10*	50% co-ins***	\$25*
Preferred Brand	\$15*	\$15*	40% co-ins***	\$15*	50% co-ins***	\$35*
Non-Preferred Brand	\$30*	\$30*	40% co-ins***	\$30*	50% co-ins***	\$50*
Prescription drugs – Mail Order (90 day supply)						
Generic	\$20**	\$20**	NA	\$20**	NA	\$50**
Preferred Brand	\$30**	\$30**	NA	\$30**	NA	\$70**
Non-preferred Brand	\$60**	\$60**	NA	\$60**	NA	\$100**

* Co-pay applies to each 1-month (30 day) supply. Preauthorization may be required for certain drugs. Drugs are not available for non-covered services.

** Co-pay applies to each 3-month (90-day) supply of maintenance drugs only. Preauthorization may be required for certain drugs. Drugs are not available for non-covered services.

*** Deductible applies. Once deductible is met, the member pays the percentage of co-insurance that is indicated for that service.

2005 Plan Design

Prescription Baseline Diagnosis 2005							
Covered Prescription Services	Commonwealth Enhanced		Commonwealth Premier		Commonwealth Essential		
	In-Network	Out-of-Network	In-Network	Out-of-Network	In-Network	Out-of-Network	
Prescription drugs – Retail (30 day supply)					25%		
Members	109,865		113,720		4,739		
					25% coinsurance		
					Min	Max	
Generic	\$10*	40%	\$10*	30%	\$10	\$25	No Benefit
Preferred Brand	\$15*	40%	\$15*	30%	\$20	\$50	No Benefit
Non-Preferred Brand	\$30*	40%	\$30*	30%	\$35	\$100	No Benefit
Prescription drugs – Mail Order (90 day supply)					25%		
					Min	Max	
Generic	\$20	No Benefit	\$20	NA	\$20	\$50	No Benefit
Preferred Brand	\$30	No Benefit	\$30	NA	\$40	\$100	No Benefit
Non-preferred Brand	\$60	No Benefit	\$60	NA	\$70	\$200	No Benefit
* After the 75 th prescription has been filled, excluding mail order, the co-payment will reduce to \$5 generic, \$10 preferred brand and \$20 non-preferred brand							

2005 Plan Design Observations

General

- Three tier benefit structure facilitates utilization of lower cost brands and generics.
- Members and physicians are accustomed to the use of a formulary with a three tier structure in place for all years under review.

Other Findings

- Flat dollar copays did not change in each of the three years reviewed.
- Erosion of member share occurs with flat dollar copays at about 1-2% per year, similar to the experience for the Commonwealth due to drug inflation.
- The middle tier (Preferred Brand) is typically where significant member share dollars are collected. Widening the \$5 differential between Preferred Brand and Generic will further incentives cost effective product selection. Industry experts recommend a minimum differential of \$10 (i.e. \$20.00) while preserving a \$15 differential between Preferred Brand and Non-Preferred Brand (i.e. \$35.00).

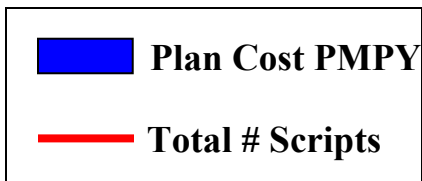
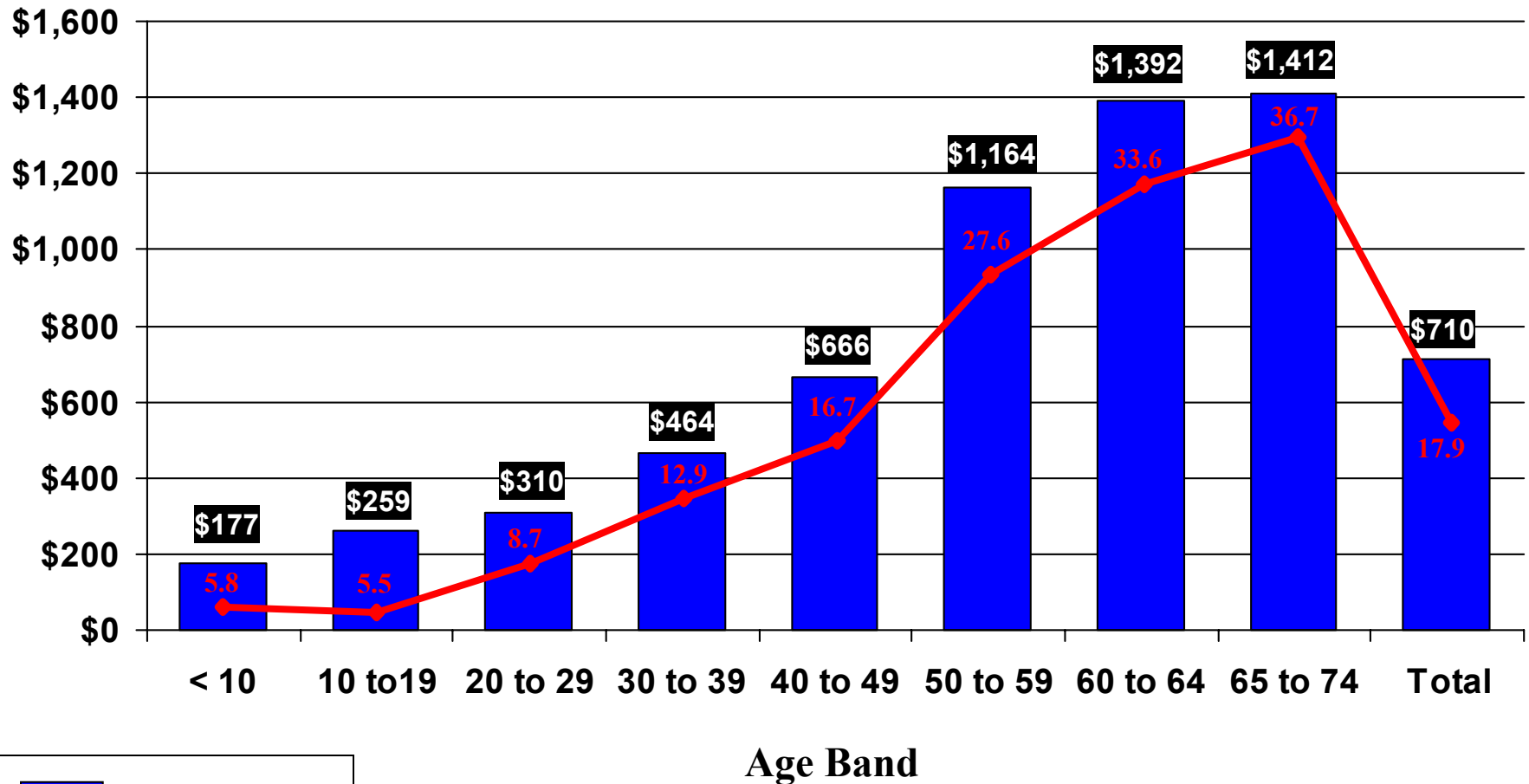
2004 Demographics

Age Group	Member	% of Total Members	% of Net Pay Rx
< 10	18,695	8.79%	2.2%
10 to 19	12,524	5.89%	4.8%
20 to 29	26,303	12.37%	5.5%
30 to 39	28,826	13.56%	8.9%
40 to 49	41,291	19.42%	8.2%
50 to 59	57,763	27.17%	45.0%
60 to 64	21,908	10.3%	20.4%
65 to 74	5,298	2.49%	5.0%
Total	212,608	100%	100%

2004 Demographics Observations

- Utilization of scripts and cost per member follows typical demographic patterns, however, actual plan cost and number of scripts is an estimated 23% higher than an industry benchmark average.
- The Commonwealth average age is 36.9 and increasing. It is estimated to be nearing 40 within the next 3 years, moving cost and utilization into a higher age band. The current average age band of 30-39 has a plan cost average of \$464 and an average number of scripts of 12.9. The 40-49 age band has an average plan cost of \$666 and average number of scripts 16.7.
- Older populations tend to use more chronic medications and thus have more prescriptions PMPY, however, this may range up to 26 claims. Commonwealth utilization in the 50-74 years is well beyond industry norms.

2004 Demographics



Detailed Utilization Analysis



Introduction

- Drugs are grouped into Therapeutic Classes commonly used to treat a particular disease or diagnosis.
- PwC analyzed the Commonwealth's 2004 Therapeutic Class and Top Drug utilization.
- To further analyze experience, PwC created Drug Classes within top Therapeutic Categories and grouped similar products together.
- A Top Drug year over year comparison was analyzed to identify fastest growing drugs and to identify top drugs scheduled to lose patent protection over the next 3 years.
- Data was analyzed in aggregate (i.e. all plans).

Therapeutic Class Observations

General

- Sizeable opportunity to improve cost effective brand and generic (chemical and therapeutic) use.
- Several 'chronic disease' categories present – Asthma, Diabetes, Cardiovascular Disease (High Cholesterol, High Blood Pressure) – opportunity for disease management.
- Antihistamines – ripe for management or alternative programs, class contributed to > \$5 million in plan cost for 2004.
- Pain and Inflammation category will likely decline as a result of drug safety issues within the Cox-II class (led by Vioxx withdrawal in fall of 2004).

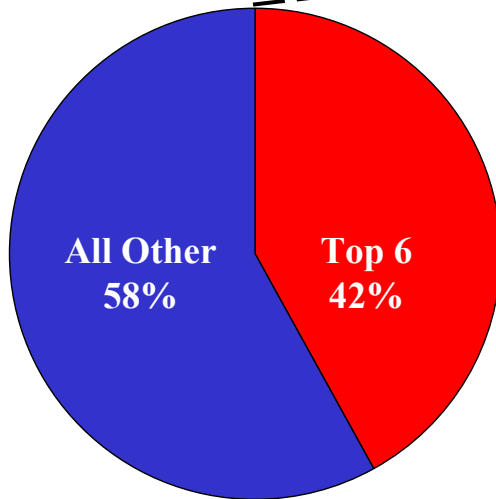
Therapeutic Class Observations

Detailed

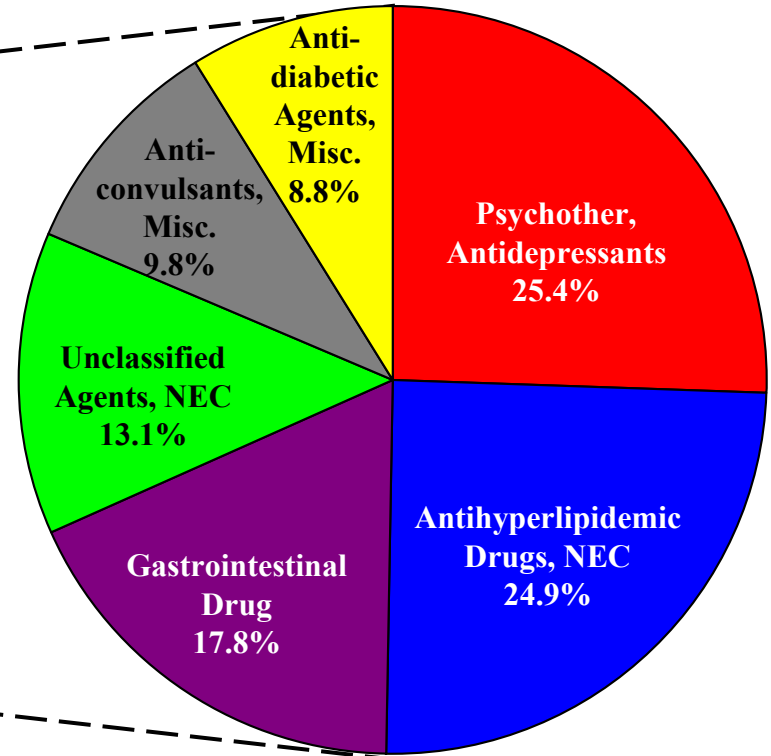
- Psychotherapeutic Category – SSRI's (e.g. Zoloft, Prozac) represented 57% of the cost in the category, Celexa is now available as a generic. Class is “maturing”, meaning many credible generic options.
- Cholesterol Category – HMG's (e.g. Lipitor, Zocor) represent 81% of the cost in this class. Wide range of average cost per prescription for example, from market leading Lipitor at \$69 to Zocor and Pravachol at \$104 and \$92 respectively. Utilization will continue to grow as treatment guidelines continue to be updated. Variations in cost per prescription present a strong opportunity for formulary management.
- Gastrointestinal Category – Proton Pump Inhibitors (e.g. Nexium) represent >88% of the cost. With the patent expiration of Prilosec and resulting OTC availability, cost in this category can be mitigated through plan design and clinical initiatives.

Therapeutic Class 2004

**Total Therapeutic
Class Dollars in 2004**



**Top 6 Therapeutic
Categories**



2004 Top 10 Therapeutic Class Summary

2004 Therapeutic Class Summary					
Class Rank	Medstat Therapeutic Class (Intermediate)	Description	Net Paid	Number of Rx	Number of Patients
1	Psychother, Antidepressants	Antidepressants/Mental Health	\$18,170,230	315,351	63,512
2	Antihyperlipidemic Drugs, NEC	Treatment of High Cholesterol	\$17,835,486	253,734	45,389
3	Gastrointestinal Drug Misc, NEC	Ulcer Therapy/Heartburn	\$12,756,912	117,606	25,801
4	Unclassified Agents, NEC	Miscellaneous Disease Treatments	\$9,396,725	106,738	23,422
5	Anticonvulsants, Misc	Treatment of Epilepsy	\$7,041,549	53,415	11,976
6	Antidiabetic Agents, Misc	Treatment of Diabetes	\$6,320,812	90,260	14,590
7	Analg/Antipyr, Nonstr/Antiinflam	Pain and Inflammation (non-narcotic)	\$5,485,101	139,088	54,806
8	Antihistamines & Comb, NEC	Treatment of Allergies	\$5,148,428	181,259	72,507
9	Cardiac, Calcium Channel	Treatment of High Blood Pressure	\$4,608,465	125,661	18,462
10	Adrenals & Comb, NEC	Treatment of Asthma (steroids)	\$3,860,616	81,149	42,107
Top 10 Total			\$90,624,325	1,464,261	
Grand Total			\$168,492,908	4,160,616	
Top 10 Percent of Total			53.79%	35.19%	

All claims represented including those classified by Medstat as OTC and/or missing.

Top Drug Analysis

Product Name	2004 Rank	Net Pay PMPM	2003 Rank	Net Pay PMPM	% Change Cost Only
LIPITOR	1	\$0.27	1	\$0.15	82%
PREVACID	2	\$0.23	3	\$0.20	16%
EFFEXOR-XR	3	\$0.79	6	\$0.20	294%
ZOCOR	4	\$0.15	2	\$0.20	-26%
ZOLOFT	5	\$0.24	5	\$0.17	39%
SINGULAIR	6	\$0.47	7	\$0.18	160%
NEXIUM	7	\$0.20	12	\$0.20	2%
NEURONTIN	8	\$0.96	8	\$0.36	168%
ALLEGRA	9	\$0.27	4	\$0.30	-8%
PROTONIX	10	\$0.27	10	\$0.17	61%
ACTOS	11	\$0.27	15	\$0.14	92%
PLAVIX	12	\$0.17	19	\$0.18	-3%
AVANDIA	13	\$0.40	81	\$0.50	-21%
CELEBREX	14	\$0.17	16	\$0.14	21%
TOPAMAX	15	\$0.24	18	\$0.15	56%
WELLBUTRIN XL	16	\$0.73	NA	NA	NA
LEXAPRO	17	\$0.16	37	\$0.15	3%
FOSAMAX	18	\$0.15	26	\$0.20	-23%
CELEXA	19	\$0.21	11	\$0.20	7%
ZYRTEC	20	\$0.31	21	\$0.17	80%
LOTREL	21	\$0.17	24	\$0.12	41%
ENBREL	22	\$0.17	42	\$0.22	-22%
PAROXETINE HCL	23	\$0.19	72	\$0.22	-14%
NORVASC	24	\$0.67	23	\$0.22	201%
IMITREX	25	\$0.55	25	\$0.15	258%
ADVAIR DISKUS 250/50	26	\$0.20	32	\$0.13	49%
FLONASE	27	\$0.18	31	\$0.13	35%
TRICOR	28	\$0.17	38	\$0.15	18%
EVISTA	29	\$0.26	22	\$0.21	20%
PRAVACHOL	30	\$0.19	27	\$0.15	29%

Top 30 Drugs represented 40% of total plan cost in 2004 and 21% of prescriptions

Top Drug Observations

- Top 30 Drugs represented 40% of total plan cost in 2004 and 21% of total prescriptions.
- There were 4 Proton Pump Inhibitors (PPI's) within the Top 50, generic Prilosec (omeprazole) was ranked 41. This generic has an average cost/script of \$88.78 compared to brand Nexium at \$117.32. Utilization of these products (in addition to using lower cost products) can also be reduced through a variety of means (OTC use, other alternative treatments).
- All three Cox-II inhibitors were in top 50, this will likely change during 2005 as a result of concerns with “class safety” (Vioxx withdrawn from market in fall 2004)
- Effexor-XR, a drug to treat depression, experienced a significant jump in cost and rank from 2003 to 2004. Market position as a non-SSRI (associated with safety issues in children and teens) may be contributing to this rapid increase. Prescribing and best practice patterns should continue to be reinforced.

Top Drug Observations

- Enbrel, a specialty drug to treat arthritis, moved up 20 places in rank to number 22. Management of specialty products will be critical moving forward.
- Singulair, originally approved for asthma, gained an additional approval for allergies and is now widely marketed through Direct to Consumer Advertising (DTC).
- Wellbutrin XL, a once a day formulation, has gained market share despite all other brand dosage forms now being available as a generic.
- Celexa ranked #19 in 2004 and is now available as a generic, Neurontin #8 is also available as a generic.

High Cost Patients Observations

- Top 3 patients ranked by net pharmacy plan cost all have a primary diagnosis of Multiple Sclerosis.
- No commonality can be seen between high pharmacy and corresponding medical expenditures in this subset of patients. The experience varies dramatically by each patient, ideally a more complimentary use of medical/pharmacy spend would indicate coordinated care.
- Management of specialty pharmaceuticals within the pharmacy benefit is highly recommended, biotechnology pipeline is strong and more drugs expected to enter the market in the next several years.
- Case management opportunities through the medical plan are recommended to assist these patients with complex disease conditions navigate the healthcare system.

Summary of Observations and Strategies



Remedies/Strategies



Distribution Channel and Price

- The Commonwealth's strategy of migrating to a single pharmacy vendor will clearly enhance management of this widely used benefit.
- Administrative efficiencies and consistency of benefit administration will allow the Commonwealth to streamline cost and utilization management initiatives.

Utilization

- Commonwealth utilization of 17.86 scripts per member can be influenced by virtually all clinical management strategies including step therapy, quantity limits, prior authorization, formulary, disease management, and retrospective DUR. Specific program recommendations included within the “Mix” category.
- The established Commonwealth benefit design should be supported through the use of Quantity Limits to ensure day supply limitations are being followed. Quantity level limits are a standard offering of most pharmacy benefit administrators. Adoption of the selected vendors list, following a detailed review, should be considered.

Mix – Influencing Cost Effective Product Selection

- Implementation of a single formulary will provide a solid foundation from which to influence prescribing (physicians), dispensing (pharmacists) and consumption (patients).
- As the Commonwealth will be undergoing transition from 4 pharmacy benefit administrators to one, this is a prime opportunity to adopt the selected vendors more “managed” formulary, or one that is focused on generics and low cost brand products.
- Product selection within key Therapeutic Categories, including PPI, SSRI and NSAID categories can be optimized by interventions such as step therapy, which require use of a generic prior to a brand when medically appropriate.
- Meaningful generics (e.g. Celexa) launched in the later half of 2004, will positively impact plan cost. The Commonwealth will see the value associated with these “environmental changes” in 2005 and beyond.

Mix – Influencing Cost Effective Product Selection

- Prior Authorization of key products is also recommended to ensure use is medically appropriate. Examples include Singulair (now used for allergies at a cost premium over other readily available treatments) and Enbrel, a specialty injectable for arthritis.
- Antihistamine use can be managed within the formulary or through plan design. With OTC availability, this class can be managed tightly through higher member cost share and/or redirection to OTC alternatives through plan design changes or other interventions.

Plan Design

- Use of a coinsurance with min/max in 2005 is a good strategy, may need refinement for 2006 as more data becomes available.
- A mandatory generic policy, where members pay the difference between the cost of a brand and the available generic should be considered. Several blockbuster generics will be entering the market in the next few years and a mandatory generic policy facilitates rapid adoption of these cost effective alternatives. Even in the absence of a specific program, reducing the Commonwealth's Multi-Source utilization by 3% with a corresponding increase in Generic Fill Rate.
- Flat dollar copays should be refreshed to keep member share consistent with the cost-share expectations of the Commonwealth. Erosion of member share occurs with flat dollar copays at about 1-2% per year, due to drug inflation.

Plan Design

- Widening the \$5 differential between Preferred Brand and Generic will further influence cost effective product selection. A minimum differential of \$10 (e.g. \$20.00) is recommended while preserving a \$15 differential between Preferred Brand and Non-Preferred Brand (e.g. \$35.00). An aggressive alternative is to adopt a 100% coinsurance for non-preferred brands.
- Modest decrease in generic copay can also be considered to facilitate use.